

Message Text

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ACTION EB-11

INFO OCT-01 EUR-25 EA-11 NEA-10 ISO-00 SSO-00 NSCE-00

USIE-00 INRE-00 SPC-03 AID-20 NSC-10 RSC-01 CIEP-02

TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03 PA-04

PRS-01 CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07

OPIC-12 LAB-06 SIL-01 DRC-01 /175 W

----- 065079

O R 241447Z OCT 73

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC IMMEDIATE 892

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMCONSUL DACCA

AMEMBASSY ISLAMABAD

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

C O N F I D E N T I A L STOCKHOLM 3769

E.O.11652: GDS

TAGS: EFIN PK BD SW

SUBJECT: PAKISTAN-BANGLADESH DEBT

REFS: A. STATE 208687; B. STOCKHOLM A-400

1. MFA CHIEF OF BILATERAL AID, THORD PALMLUND, HAS GIVEN
FOLLOWING ANSWERS TO QUESTIONS SET OUT IN PARA 7 REF A.

A. HE BELIVED GOS WOULD SUPPORT PARTICULARLY FAVORABLE
TREATMENT OF DISPUTED PORTION OF PAKISTANI DEBT AND WOULD
DESIRE GENEROUS LONG-TERM RELIEF OF UNDISPUTED PORTION. HE
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BELIVED SWEDEN WOULD PREFER COMPLETE WRITE-OFF OF DISPUTED

PORTION OR AT LEAST ITS GENEROUS RESCHEDULING. GOS WOULD THEREFORE BE CERTAIN STRONGLY TO PREFER OPTION 2 (PARA 4, REF A) BUT IT MIGHT BE ABLE TO ACCEPT OPTIONS 1 AND 3 IF THESE COULD BE DEFINED IN SUFFICIENTLY LIBERAL WAY.

B. ON THEIR FACE, OPTIONS 1 AND 3 HE THOUGHT, FAILED TO RECOGNIZE NEED FOR SPECIAL TREATMENT OF DISPUTED PORTION. HE DID NOT BELIEVE THAT WRITE-OFF OF DISPUTED PORTION WOULD CREATE DANGEROUS PRECEDENT IN HANDLING OTHER DEBTS. HE OBSERVED THAT COUNTRIES ARE NOT SPLIT EVERY DAY AND DIVISION OF PAKISTAN INTO TWO COUNTRIES IS UNIQUE CASE. GOS, HE WAS SURE, WOULD HAVE NO PROBLEM IN AGREEING TO WRITE-OFF. HOWEVER, BECAUSE SWEDEN DID NOT PARTICIPATE IN COMMODITY CREDIT TO BANGLADESH, IT COULD SPEAK APPROPRIATELY ONLY WITH "VERY SMALL VOICE" ON THIS ISSUE.

C. PALMLUND BELIEVED THAT PAKISTAN IS LIKELY TO CONSIDER IT UNFAIR IN LONG RUN TO HAVE TO ACCEPT RESPONSIBILITY FOR PAYING FOR COMMODITIES DELIVERED TO BANGLADESH. FURTHER, HE THOUGHT THAT PAKISTAN COULD MAKE CONVINCING CASE THAT REDUCTION OF ITS EXPORT EARNINGS FOLLOWING RECENT FLOODS PREVENTED IT FROM MEETING THIS SPECIAL BURDEN. PALMLUND FEARED THAT UNLESS DISPUTED PORTION IS WRITTEN OFF, IT COULD REMAIN SORE POINT FOR SOME TIME.

D. PALMLUND COULD NOT IMMEDIATELY THINK OF ANY OTHER OPTIONS OR APPROACHES.

2. AS BACKGROUND, PALMLUND EXPLAINED THAT GOS HAS WRITTEN OFF PAKISTANI INDEBTEDNESS FOR A SWEDISH DEVELOPMENT PROJECT IN WHAT IS NOW BANGLADESH. AS RESULT, PAKISTAN IS NO LONGER IN DEBT TO SWEDEN FOR ANY PROJECTS IN BANGLADESH, AND SWEDEN NO LONGER HAS ANY DISPUTED DEBTS WITH PAKISTAN. REMAINING PAKISTANI DEBT TO SWEDEN IS FOR PROJECTS CLEARLY WITHIN PRESENT BOUNDARIES FOR PAKISTAN.

3. PALMLUND SAID GOS RECOGNIZES THAT DEBT SERVICE IS SERIOUS PROBLEM FOR DEVELOPING COUNTRIES. THEREFORE, BOTH AS MATTER OF PRINCIPLE WITH RESPECT TO LDCS IN GENERAL AND IN PARTICULAR CASE OF PAKISTAN, IT SUPPORTS LONG-TERM RESCHEDULING OF DEBTS. LIKE U.S., HE NOTED GOS HAS GIVEN SOFT CREDITS AND MANY OUTRIGHT GRANTS TO LDCS. GOS FEELS, THEN, THAT IT CAN PROPERLY SEEK TO SOFTEN TERMS EXTENDED BY SOME OTHERS. CURRENT LEGISLATION WOULD PERMIT GOS TO GO AS FAR AS ANY OTHER COUNTRY WITH RESPECT TO LONG-TERM RESCHEDULING OF PAKISTAN DEBT.

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4. ALTHOUGH GOS HAS WRITTEN OFF PAKISTANI DEBT SERVICE FOR FY 1974 (REF B) AS IT HAD SIMILARLY WRITTEN OFF DEBT SERVICE FOR INDIA AND PAKISTAN ONCE BEFORE, ITS RECENT WRITE-OFF OF BANGLADESH PORTION OF PAKISTANI DEBT WAS SWEDEN'S FIRST WRITE-OFF OF PRINCIPAL. IN THIS CASE, GOS HAD NOT THOUGHT IT LOGICAL TO RENEGOTIATE AN OLD CREDIT WHILE REST OF ITS AID TO PAKISTAN WAS EXTENDED AS GRANTS. FURTHER, IT WISHED TO CLEAR ITS ACCOUNT WITH

PAKISTAN WITH RESPECT TO AID PROJECTS IN BANGLADESH.
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